

10 Myths Every Land Contract Buyer in Michigan Should Know About

Myth #1 – I purchased my home with a Land Contract and now have a legal title interest in my property.

Fact: Legal title does not pass until you have paid off the Land Contract balance and the seller transfers the property to you through a Warranty Deed.

Myth #2 – I increased the value and equity of my home bought on Land Contract by making repairs to it.

Fact: Because you do not obtain a legal title interest until your Land Contract balance is paid in full, any improvements you make during the contract that improve the value of the property will financially benefit the seller.

Myth #3 – I make all my monthly Land Contracts on time so I cannot lose my home.

Fact: Sellers commonly have underlying mortgages with a priority lien on the property, and if they fail to meet their mortgage terms, including transferring the property to you on Land Contract, the holder of the mortgage can foreclose upon them. If the mortgagee forecloses on your property, all the payments you made on the Land Contract will be lost.

Myth #4 – The seller did not have a mortgage on my home when I bought it, so I don't have to worry about foreclosure.

Fact: It is not uncommon for sellers to leverage their home to receive loans or other things of value after you executed the Land Contract. Sellers may also have income tax or other liens placed on the property, which could supersede and jeopardize your Land Contract interest.

Myth #5 – If I miss payments on my Land Contract, the seller cannot evict me for 6 months.

Fact: Depending on the terms of your Land Contract, the seller can sue you for forfeiture or breach of contract. If the seller uses these methods to enforce the terms of your contract, you can be evicted in as little as 90 days or shorter.

Myth #6 – The seller has house insurance on my property, so I am covered if my property is damaged or destroyed.

Fact: If your Land Contract stipulates the seller is responsible for property insurance, but he fails to pay the premiums, you are not protected from losses should something unfortunate happen to your property or personal belongings.

Myth #7 – I got a great deal on my house, and the seller told me he sold it to me below value because he likes me.

Fact: Sellers may believe their house is worth more than it is, or deceptively convince you to pay an inflated price. Unless you had an unbiased licensed professional appraise your house, you may not have the equity you believe you do, and you could actually owe more than your property is worth.

Myth #9 – I finally can pay off my Land Contract balance and will now get my Warranty Deed and legal title interest.

Fact: Sellers may not be able to provide a Warranty Deed due to mortgages or other liens filed against your home, which exceed your payoff. If a seller is unable to satisfy these encumbrances you may be forced to sue to receive your Warranty Deed and legal title interest.

Myth #10 – I could not qualify for a traditional mortgage before, I probably will not qualify now.

Fact: As the old saying goes, "Time heals all wounds." In recent years, Michigan has experienced significant home value appreciation and home equity provides a major advantage in receiving a mortgage approval. Over time, credit scores can rise, employment can stabilize, and one's overall financial situation can significantly improve. Mortgage guidelines have loosened and mortgage products have expanded, as a result, many people are able to refinance their Land Contract.

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